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# REVIEW OF INTERNATIONAL SUPPORT TO ECDC: EXPERIENCES OF DEVELOPED AND DEVELOPING COUNTRIES, THEIR PROBLEMS AND PROSPECTS

## Scope and features of the subregional, regional and interregional components of development assistance programmes of the donor community

Report by the UNCTAD secretariat

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## INTRODUCTION AND SUMMARY

1. The agreement by the Standing Committee on Economic Cooperation among Developing Countries (ECDC) at its first session, held from 11 to 15 January 1993, to "make the necessary arrangements for a pragmatic policy dialogue among the donor community, subregional, regional and interregional groupings, as well as participants in ECDC programmes and projects ...", 1/ appears to be the indication of the desire and willingness, on the part both of the donors and recipients, to examine the possibility of incorporating a regional dimension and perspectives into future development strategies, by reviewing, inter alia, development assistance programmes through a "regional lens".

2. At a policy-level meeting organized earlier within the OECD/DAC framework in Paris in September 1992, the donor community, among other activities, reviewed its development assistance policy with a view to examining the manner in which they can support the current process of revitalization of regional economic cooperation and integration in the developing world. This initiative by the donor community facilitated the discussion by the Standing Committee, thus leading to the agreement by the Committee referred to above. The former indifference on the part of many donors as regards assisting the process of regional economic cooperation and integration among developing countries has undergone a marked change, largely as a result of their positive experience with a number of ECDC actors and participants.

3. In order to initiate the necessary preparatory arrangements for a pragmatic policy dialogue, the Standing Committee decided to organize a meeting of an intergovernmental group of experts "to hold consultations with interregional, regional and subregional groupings ... with a view", inter alia, "to collecting relevant information from the donor community ...". 2/ Consequently, an attempt is made in this report to provide the Intergovernmental Group of Experts with the information collected by the secretariat so far with a view to facilitating their discussion of the matters referred to them. In preparing this report, the secretariat benefited from the documentation circulated during the first session of the Standing Committee (UNCTAD/ECDC/232), 3/ as well as from information supplied at the request of the secretariat by the Governments of Austria, Canada, Finland, Germany, Japan, Norway, Switzerland and the United Kingdom, the OECD secretariat and the Commission of the European Community. Reference has also been made to the 1992 Report by the Chairman of the Development Assistance Committee (DAC) entitled Development Co-operation, 4/ since, at the time of drafting the present report, the 1993 Report was not available. In addition, several Memoranda by DAC members, their development assistance budgets and related publications were drawn upon.

4. Given the diversity of the issues involved, however, and the lack of an appropriate reporting system both within the OECD/DAC framework and among the recipient ECDC actors and participants for recording all relevant financial and other flows, a preliminary attempt has been made in this report, to compile information primarily on the financial flows of a concessional nature, namely Official Development Assistance (ODA), and other related development

assistance from the donor community, disbursed and/or provided directly, or indirectly through multilateral agencies, to the regional economic cooperation and integration groupings. In certain cases, however, flows to ECDC actors and participants other than groupings have been included in order to indicate the other types of recipient that have received development assistance with the scope and features covered in this report. In some other cases flows of Official Development Finance (ODF) other than ODA have been discussed, mainly with a view to indicating the scope and features of financial resources of lower concessionality. The regional programmes and projects discussed here may also include those dealing with issues of a transboundary nature (for instance, disease and pest control), in support of regional research activities, and those implemented regionally rather than on a "country" basis for administrative convenience. In any event, the report does not purport to present an exhaustive picture of all relevant policy measures and frameworks available in the donor community. Nor does it claim to have succeeded in grouping or categorizing such measures and frameworks in a consistent and systematic manner.

5. Chapter I reviews the donor community's current development assistance programmes with a regional orientation and perspectives. Financial flows of a concessional nature, namely ODA, to the "regional" 5/ groupings represent only an insignificant share of the total ODA flows to developing countries. In 1991, the share of ODA to regional groupings is estimated to have been less than one per cent of the total bilateral and multilateral ODA flows of US$ 55.8 billion. This may have been due, inter alia, to the difficulties of providing direct development assistance to a group of recipients in the dominantly country-oriented framework of ODA, and the greater complexity of operating regional development assistance programmes compared to country programmes. Technical and other assistance given by the United Nations systems is being funded multilaterally through the United Nations Development Programme (UNDP) and other funding agencies. The World Bank Group provides financial and technical assistance to regional projects in developing countries, such as its recent involvement with subregional groupings in Africa, alongside their own initiatives, as, for instance, the Global Coalition for Africa. The European Community extends its development assistance programmes to various regional groupings on the basis of the European Development Fund and of its Budget.

6. In Chapter II, an attempt has been made to describe the conventional perception of regional initiatives and the newly emerging policy framework for regional initiatives, and to indicate possible clusters of issues for initiating the reorientation of development assistance policy and strategy. A few donors underline the need for donors' involvement with regional groupings. Some donors encourage active donor participation in support of regional economic cooperation among developing countries. Other donors agree with the potential effectiveness of regional cooperation, but consider that their share of the "duty" to assist such regional activities is discharged in full by their financial and other contributions to multilateral institutions. Many bilateral donors, however, remain sceptical about the idea of providing development assistance directly to regional groupings, owing to the perceived poor performance of regional groupings in achieving their operational targets

in the past, and the observed lack of commitment by the member governments to their regional entities. Nevertheless, a new set of political and economic environment in the 1990s has drawn the donors' attention to the need for a new policy framework of development assistance. Inspired by the resurgence of interest, some donors have already started to incorporate a regional dimension and perspectives into their development assistance policy. On the multilateral agencies' side, the Commission of the European Community and the World Bank have made increasing efforts to support regional cooperation, in addition to UNDP, which has provided permanent support to regional economic cooperation activities since its inception.

## Chapter I

## REVIEW OF CURRENT DEVELOPMENT ASSISTANCE PROGRAMMES WITH A REGIONAL ORIENTATION AND PERSPECTIVES

7. The members of the Development Assistance Committee, according to the 1992 Report of its Chairman, provided "US$ 57 billion in ODA in 1991 - an increase from US$ 53 billion in 1990. When adjusted for prices and exchange rates, this results in a 3.3 per cent growth in real terms". 6/ The report further stated that "the growth in DAC ODA totals is especially critical given the progressive drop in ODA from non-DAC sources. Flows from Eastern Europe and the former Soviet Union have continued to drop from US$ 4 billion in 1988 to an estimated total of about US$ 1 billion in 1991. Arab donor ODA flows dropped markedly during the 1980s, showed a brief recovery in 1990 by rising to US$ 5.9 billion, but again dropped to US$ 2.7 billion in 1991. Including ODA from other ... donors at US$ 400 million, non-DAC ODA is now estimated to total US$ 4.2 billion - less than the US$ 5 billion contributed by NGOs in 1991". 7/ The share of DAC ODA in the total ODA flows had steadily increased from just over 60 per cent in the 1970s to over 80 per cent in the late 1980s.

8. DAC ODA (except ODA from the European Community) to regional groupings has not been significant in terms of its volume: the annual average of total DAC assistance to regional groupings during the period between 1985 to 1990 has been estimated at not more than US$ 800 million, and less than one per cent of an average annual DAC ODA during that period. 8/ Though insignificant as a portion of a donor's total ODA, the financial and technical assistance from the DAC countries, together with that of the multilateral agencies, make up a significant proportion of the resources made available to many recipient groupings for feasibility studies, project implementation, and planning for future operations. DAC ODA to regional groupings is often not assigned an independent category of its own in the statistical information on ODA flows, being commonly considered as supplementary to donors' existing bilateral ODA to a developing country (or countries) that is a member of the grouping.

### A. Records of bilateral assistance

#### 1. Australia

9. Australia maintains a very close link with ASEAN, as evidenced by the signing in 1988 of the five-year ASEAN-Australian Economic Cooperation Phase II, which places particular emphasis on:

- intra-ASEAN regional cooperation;
- ASEAN-Australian economic, scientific and technical cooperation and human resources development;
- promotion of mutual understanding, mutual benefit and good relations between ASEAN-Australia; and,

## 4. France

16. France's development assistance programme with regional orientation extends mainly to countries falling within the ambit of the Ministry for Cooperation and Development: namely, French-speaking West and Central Africa, the Maghreb countries and South Pacific countries. France provides direct assistance to regional cooperation activities in Africa, in addition to its bilateral assistance. Regional assistance by France to the Maghreb and South Pacific takes the form of coordination with recipients in order to enhance the effectiveness of both bilateral and regional development programmes or projects. There are also development assistance programmes with a regional orientation to Latin America. Regional assistance to Central America has replaced bilateral assistance to a certain extent, in view of the size of the countries concerned. For the rest of the Latin American region, a regional perspective is being integrated in order to enhance the complementarity of bilateral projects with the established economic cooperation and integration efforts in the region.

17. The development assistance programme provided by France for West and Central Africa falls broadly into three groups: (1) assistance to regional economic cooperation and integration groupings; (2) assistance to regional institutions; and (3) project assistance or technical assistance to inter-State development cooperation in geographic or sectoral activities.

(1) In the first group of activities, assistance consists of the Franc Area projects, which cover the regions under either the Bank of Central African States (BEAC) or the West African Monetary Union (UMAO). The Franc Area projects are intended to facilitate coordination of the legal, administrative and economic environment. Their main objective is to provide technical assistance to achieve regional coordination and harmonization of rules and regulations in such sectors and activities as insurance, social programmes, regional pools of economic and financial training (for training financial and economic personnel in public services), the centralization of regional trade and financial data, and business law.

(2) More narrowly focused assistance is being given to several regional institutions, though no details were available. France's assistance to the Permanent Interstate Committee on Drought Control in the Sahel (CILSS) is mainly through its multi-donor counterpart, the Club du Sahel.

(3) Assistance is being given for planning and implementing issue-specific or sectoral projects involving groups of countries or intergovernmental agencies. This group of assistance includes the assistance to the Benin-Niger railway and the Office Mali-Mauritania-Senegal.

18. The Economic, Social and Cultural Cooperation Fund for the South Pacific, signed in 1987, is the core of France's regional assistance programme for that area. The assistance consists of regionally managed project financing. Regional orientation suits most projects because of the size of the individual countries involved. Disbursement to the Fund, as reported, was FF 10 million (US$ 1.7 million) in 1986, FF 59 million (US$ 10.3 million) in 1987, FF 35 million (US$ 6.1 million) in 1988, FF 15 million (US$ 2.6 million) in 1989, FF 15 million (US$ 2.6 million) in 1990 and FF 15 million

(US$ 2.6 million) in 1991. Other regional assistance to this region includes education and training of personnel at the French University of the Pacific. There is also the Regional Pacific Programme for the Environment, with particular emphasis on fisheries resources.

### 5. Germany 10/

19. In general, Germany regards regional cooperation and integration as a potentially promising model for the development of developing countries and development cooperation. Experiences in this field of cooperation have been different. The past has shown that the success of efforts and projects undertaken by regional institutions depends very much on the efficiency of the work and the restraining circumstances to establish mutual assent among participating member States.

20. The information contained in table I represents the financial magnitude of development assistance programmes with regional orientation provided by Germany, as reported. The table shows focusing on African regional institutions as well as a general increase in 1991 after a year of uncertainty during structural changes in the world economy.

**Table I**

**DEVELOPMENT ASSISTANCE PROGRAMMES WITH REGIONAL ORIENTATION PROVIDED BY GERMANY**

**(DM million)**

| | 1988 | 1989 | 1990 | 1991 |
|---|---|---|---|---|
| **Africa** | | | | |
| Total | 2 237.077 | 2 525.531 | 2 946.744 | 2 794.734 |
| Regional | 15.370 | 8.810 | 25.050 | 12.480 |
| | (0.687%) | (0.349%) | (0.85%) | (0.447%) |
| **North and Central America** | | | | |
| Total | 727.284 | 771.667 | 902.791 | 817.406 |
| Regional | 1.413 | 1.669 | 0 | 3.500 |
| | (0.19%) | (0.216%) | (0) | (0.428%) |
| **South America** a/ | | | | |
| Total | 435.346 | 445.853 | 566.680 | 533.996 |
| Regional | 0.656 | 0.960 | 0 | 0.387 |
| | (0.15%) | (0.215%) | 0 | (0.072%) |

Source: "Informationsvermerk für des Ausschuss für wirtschaftliche Zusammenarbeit des Deutsches Budestages", Bundesministerium für Wirtschaftliche Zusammenarbeit und Entwicklung.

a/ Regional assistance to South America is to the Andean Pact/Andean Economic Bank.

## 6. Japan

23. Under the Enterprise for the Americas Initiative, the establishment of a fund was proposed to increase private investment and stimulate private sector expansion in Latin America and the Caribbean. In February 1990, as a result of discussions among prospective participating countries, an agreement to establish a US$ 1.26 billion Multilateral Investment Fund (MIF) was signed. Japan expressed its intention of contributing US$ 100 million per year to this fund over a five-year period. In addition, Japan is providing financing known as the Japan Special Fund (JSF) to the AsDB and the IDB. Such financing is utilized as grant aid for technical assistance and other similar activities. The accumulated contributions as of 31 December 1991 amounted to Yen 25.4 billion (US$ 240 million) for the AsDB, and Yen 13.5 billion (US$ 127 million) for the IDB. 11/

24. Japan maintains a very active partnership with ASEAN, which has been strengthened recently by the establishment of various funds, such as the ASEAN-Japan Development Fund (AJDF), which provided some US$ 1.7 billion between 1988 and 1992 in the form of a two-step loan. Japanese involvement in the regional economic cooperation efforts of ASEAN is to be considered, so far, as supplementary to Japan's own bilateral development assistance programme for individual countries in the region, rather than as being based on Japan's own policy of assistance to regional economic cooperation among developing countries.

25. Japan's development assistance programme includes the following elements which could be examined for their possible application in the planning of the regional economic cooperation activities of developing countries:

(1) Under the third country training programmes, a developing country with a certain standard of technology is provided with financial and technical assistance from Japan, enabling it to implement training programmes for trainees from the region. This arrangement fosters technical cooperation among the developing countries. Another advantage is the ability to implement training in ways that reflect conditions in the developing countries. 12/ In 1992, 62 training programmes were organized in 22 countries with 839 trainees from non-host countries and 218 trainees from host countries.

(2) The recently concluded "Partnership Programme" agreement between Japan and Singapore is the most advanced form of the above-mentioned third country training programmes, by which Singapore organizes training programmes in Singapore with the annual participation of 200 trainees, the cost being jointly shared by Japan and Singapore.

(3) With a view to formulating development assistance programmes according to the needs of the regions concerned, the use of non-Japanese consultants under Japanese ODA became feasible since 1988. 13/

26. Within the context of "Funds for Development" Initiatives, the Export-Import Bank of Japan agreed to provide up to US$ 5 million to the East African Development Bank (EADB) in September 1988, up to US$ 87.0 million to the Banco Centroamericano de Integración Económica (BCIE) in November 1989, up to US$ 38.0 million to the Corporacion Andina de Fomento (CAF) in October 1991 and up to US$ 19.0 million to the Banque Ouest Africaine de Développement

(BOAD) in April 1992. These loan arrangements are not tied to procurement of Japanese goods and services, and are intended to finance the regional lending programmes of these regional development banks.

## 7. New Zealand

27. New Zealand provides regional assistance to the Secretariat of the South Pacific Forum through programmes and projects for fishing agencies, the Applied Geo-Science Committee, Board of Educational Assessment, and the University of the South Pacific. Information relating to the late 1980s suggests that regional programmes, including support to regional shipping lines, accounted for some 7 per cent of total ODA to the region.

28. New Zealand also provides development assistance programmes for ASEAN, especially in the area of social development under the New Zealand-ASEAN Programme. For the regional programme for ASEAN, NZ$ 2.1 million (US$ 1.3 million) was allocated in 1988/1989, totalling NZ$ 12 million (US$ 6.9 million) for the five-year period ending in 1992.

## 8. Nordic countries

29. Cooperation between the Nordic countries and SADC is based on the "Joint Declaration on Expanded Economic and Cultural Cooperation", also called the Nordic-SADCC Initiative, signed at Harare in 1986. The NORSAD Fund, established in 1990, aims at promoting regional cooperation, and encouraging trade and investment, principally within the export-oriented industries of the area by making convertible currencies available for SADCC-Nordic joint ventures against payment in local currencies. NORSAD's initial capital, provided by the four Nordic countries, is roughly equal to US$ 31 million. In addition to NORSAD, the Nordic countries are also engaged in traditional project aid.

30. The volume of Nordic development assistance to SADC is difficult to quantify accurately, since it is not possible from the data available to distinguish "regional" or "transnational" activities from projects in any single SADC country. The record of development assistance programme disbursements by individual Nordic countries to SADC are as follows:

| | | | |
|---|---|---|---|
| (1) | Denmark: | 1988: | 108 million Dan.Kr. (approx. US$ 17 million) |
| | | 1990: | 150 million Dan.Kr. (approx. US$ 24 million) |
| (2) | Finland: | 1989: | 100 million Fin.Mk. (approx. US$ 23 million) |
| | | | 560 million Fin.Mk. in the SADCC area |
| (3) | Norway: | 1991: | 216 million Nor.Kr (approx. US$ 30 million) |
| | | 1992: | 161 million Nor.Kr (approx. US$ 23 million) |
| | | 1993: | 165 million Nor.Kr (approx. US$ 23 million) |

(Norwegian assistance to SADC encompasses approximately 40 projects, concentrating on a limited number of sectors such as transport, energy, trade and industry, and environment.)

(4) Sweden: No disbursement data available but the 1989/90 development assistance budget allocated Sw.Kr. 235 million (approx. US$ 41 million) for SADC activities.

31. Regional cooperation activities in non-SADC areas were undertaken on a bilateral basis. Finland extended assistance to the Mekong Committee, the Asian Institute of Technology and the Southern African Transport and Communications Commission. Sweden's development assistance budget made available Sw.Kr.285 million (US$ 48 million) in 1988/89 and Sw.Kr.305 million (US$ 52 million) in 1989/90 for such regional cooperation activities, of which Sw.Kr.235 million (approx. US$ 41 million) was for SADC. These amounts represent approximately 5 per cent of the development assistance budget.

## 9. Switzerland

32. Switzerland has a number of development assistance programmes for economic cooperation among developing countries, in addition to various projects in support of regional research institutes. In Western and Central Africa, total development assistance provided by Switzerland to regional programmes extends to the Sahel area with contributions to various institutions. Switzerland has made a commitment to the CILSS Programme agrométéologique, which is being executed by the World Meteorological Organization (WMO), of SwF 6 million (US$ 4.2 million) since 1990, SwF 0.7 million (US$ 0.5 million) being disbursed in 1992. The project "Equipe sylvopastorale", has received SwF 2.4 million (US$ 1.7 million) since 1984. SwF 2.1 million (US$ 1.5 million) has been committed as a support to the Club du Sahel through OECD since 1991. In addition, Switzerland has committed SwF 14 million (US$ 9.9 million) to the Central African Countries Development Bank (BDEAC) for specific activities since 1983 (disbursement in 1992 - SwF 0.2 million (US$ 0.15 million)), and SwF 25.2 million (US$ 17.8 million) to the regional development bank (BOAD) since 1982 for financial assistance and project studies. A mixed credit of SwF 20 million (US$ 14.1 million) has also been granted to BOAD.

33. In southern Africa, within the framework of SADC, Switzerland has contributed SwF 15 million (US$ 10.6 million) since 1987 to the Tanzania-Zambia Railway Authority Project (SwF 1.1 million (US$ 0.8 million) in 1992)). In Asia, SwF 14 million (US$ 9.9 million) have been committed since 1983, and SwF 1.7 million (US$ 1.2 million) were disbursed in 1992 to regional projects of the Committee for Coordination of Investigation of the Lower Mekong Basin. In Latin America, SwF 10 million (US$ 7.1 million) have been committed through the Inter-American Development Bank (IDB) since 1989, SwF 2.0 million (US$ 1.5 million) being disbursed in 1992. Switzerland also supports the Corporación Andina de Fomento (CAF) through a mixed credit of SwF 20 million (US$ 14.1 million).

## 10. United States 14/

34. The United States Agency for International Development (USAID) has its own administrative structure in Washington, D.C. to deal with regional projects. This structure is designed to support a range of activities related to trade and investment, private sector development and natural resource management in the region. USAID also has bilateral missions that undertake

regional projects including a regional perspective in their activities when it is felt necessary to achieve the objectives of the USAID mission's country strategy.

35. Regional assistance programmes by the United States in Africa are intended primarily to strengthen regional organizational linkages, largely among research institutions, and to promote the private sector. The resources allocated to this end were US$ 119 million in 1990, US$ 104 million in 1991 and US$ 127 million in 1992, excluding food aid. Programmes and projects implemented within the CILSS framework were for a considerable period of time an independent programme with a separate budgetary appropriation. It was subsequently merged with the programme now called "Development for Africa". Proposed commitments in the FY 1992 amount to US$ 107 million.

36. The primary strategy for United States programmes and projects for SADC is to help to restore the operational effectiveness of southern African rail links with a view to contributing to increase agricultural productivity and food security, to expand exports and to increase investment in production. Cumulatively, US$ 140 million had been committed to the transportation sector by the end of FY 1989. An unspecified amount had also been allocated to agriculture. USAID planned to finance 27 projects at a total cost of US$ 357 million in FY 1992. 15/ The information on the exact nature of all these projects is not yet available but they include projects to enhance export competitiveness (US$ 6.7 million) and to rehabilitate the NACATA rail corridor (US$ 25 million). USAID plans to commit US$ 750,000 in support of regional food security projects in Africa during FY 1990-1994. This is a part of a multi-donor effort involving Canada, France, Italy and the United Nations Food and Agriculture Organization (FAO).

37. Regional programme and projects in Central America include programmes in the area of the environment, projects to eliminate institutional and physical constraints to regional trade, the dissemination of child nutrition techniques, and programmes to foster pluralism and democracy on a regional basis. Resources for these activities were $26 million in 1990, $17 million in 1991 and $18 million in 1992. Assistance is being provided to the Caribbean region in support of programmes such as the Caribbean Basin Initiative, which is designed to assist entities such as the Caribbean Group for Cooperation in Economic Development. The programme's resources were $27 million in 1990, $19 million in 1991 and $24 million in 1992.

38. Three different regional programmes are being implemented by the United States in Asia and the South Pacific. One programme covers the South Pacific region and provides assistance to transportation and telecommunications mostly by means of technical assistance. Resources allocated in FY 1990 were $16 million, in FY 1991 $15 million and in FY 1992 $19 million. ASEAN-US Initiatives (AUI), signed in the 1980s, is intended to enhance bilateral (ASEAN-US) economic cooperation and trade relationships. Assistance has been mostly directed towards the finance and banking sector, the science and technology sector and the transport and communications sector, based on a budget of US$ 3 million in each of the fiscal years 1990-1992. Assistance is also being provided under a project entitled the ASEAN Private Investment and Trade Opportunities (PITO), which aims at enhancing intra-ASEAN trade and investment cooperation and technology transfer. The project has been designed in such a manner as to provide practical assistance to

intra-ASEAN activities in (1) trade and investment promotion; (2) policy analysis and problem solution; and (3) capital market development. It was expected that US$ 13 million would be allocated to it over a period of six years.

## B. Record of multilateral assistance

39. Multilateral development assistance programme is often regarded as better suited to financing programmes and projects in support of a group of recipients in a wider geographical area than bilateral assistance. 16/

### 1. European Community

40. The European Community has given greater and more systematic emphasis than any other donors to programmes in favour of regional cooperation and integration directed to the recipients of its development assistance. An important part of the resources for such activities is specifically earmarked for this purpose within each of the four main development assistance programmes of the Commission, namely:

(1) Through the successive Lomé Conventions between the 12 EC members and the African, Caribbean and Pacific (ACP) Group of States (69 States), the Community has been providing development assistance in the form of grants to the ACP Group of States from the European Development Fund (EDF). The Fund's resources are off-budget and consist of contributions from the members of the Community with commitments over a five-year period. Additional assistance in the form of subsidized loans is provided by the European Investment Bank (EIB);

(2) The Mediterranean programmes have been largely based until now on cooperation agreements with each beneficiary country normally accompanied by renewable five-year financing "protocols". The resources for these programmes are made available both by the general appropriations from the Community's budget (in the case of grants) and by the EIB's own funds (in the case of subsidized loans). Additional financing, outside the cooperation agreements and their financial protocols, has been established since 1992 for the support of economic reforms, for environmental measures and for the promotion of regional cooperation;

(3) The rest of the developing world is covered by the ALA (Asia and Latin America) programmes. Unlike the case of the ACP and the Mediterranean programmes, the financing for these programmes is not established in the Community's agreement with those countries (nor in accompanying protocols). Although there is a pluriannual total that both the Community (in the case of grants) and the EIB (in the case of loans) envisage channelling to the countries in question, the specific amount each country receives depends on the merits of each of the projects.

41. Since the first Lomé Convention, approximately 10 per cent of the total EDF has been allocated to regional programmes for the financing of activities covering a number of countries or regional groupings for joint development operations. Examples of such projects are the Northern and Central Corridors (infrastructure in Africa); the Congo-Ocean railway; West African road construction; tsetse fly eradication; support to the University of the West

Indies, and Pacific telecommunications projects through the South Pacific Forum. The total resources approved from EDF are as follows: 17/

| | Approved | | % of total EDF |
|---|---|---|---|
| Lomé I | UA* | 1 300 million | 10% / 4th EDF |
| Lomé II | Ecu | 632 million | 13% / 5th EDF |
| Lomé III | Ecu | 689 million | 13.5% / 6th EDF |
| Lomé IV | Ecu | 1 100 million | |

*1UA = 0.89 gramme of gold until 1975

42. Under the fourth Lomé Convention, the amount of Ecu 1,100 million has been set aside from EDF resources for regional cooperation. In addition to these concessional resources, the European Investment Bank's subsidized loans are also available. A Commission document notes that during Lomé IV particular attention will be paid to regional economic integration, namely, promoting ACP trade by means of, for instance, clearing houses. A number of different programmes and projects are being implemented, including: (1) direct support for market integration to institutions such as CARICOM, CEAO and ECOWAS; and (2) project support to CILSS, the Indian Ocean Commission, SADC and the South Pacific Forum. Recipients of regional development assistance from EDF also include ASECNA (Association for Air Navigation Security in Africa), OMVS (Organization for Exploitation of the Resources of the Senegal River), OECS (Organization of Eastern Caribbean States), PTA and SPEC (South Pacific Economic Commission).

43. Within the framework of cooperation with the ALA countries, ASEAN is the only regional group in Asia that, for the time being, has received technical and financial assistance from the Community. A cooperative agreement was signed by the EC and the ASEAN countries in the early 1980s, but support for intra-ASEAN cooperation, owing to the reported lack of requests on the part of ASEAN, was never a high priority. Although substantive development assistance, especially in the human resources sector, has been provided by the European Community, the dialogue partnership has been viewed more as a market and investment opportunity for both parties rather than as a development cooperation partnership.

44. Regional cooperation plays a major role in EC cooperation with Latin America (35 per cent of total commitments in the region). For 1993, the amount of Ecu 105 million was allocated for regional cooperation in South and Central America. Since the mid-1980s, the EC has had cooperation agreements with both the Central American and the Andean countries as groupings, and their regional institutions (JUNAC, SIECA, CAF, BCIE, etc.) have received substantial support over the years. As regards Mercosur, the EC has had an inter-institutional cooperation agreement with this area since 1992 (while also maintaining bilateral cooperation agreements with each of its member States). Support for regional cooperation and projects in Central America (which included support for payments clearing mechanisms and for building up regional export capabilities) and the Andean Pact countries amounted to about Ecu 285 million and Ecu 100 million over the period 1976-1993. Mercosur received more than 20 million (which included support for the PEC (Special Plan of Economic Cooperation for Central America) and Lake Titicaca projects).

45. Under the "New Mediterranean Policy" in effect since 1992, the Community has set aside Ecu 300 million of concessional resources for regional cooperation among the countries concerned. An additional Ecu 1.8 billion in EIB loans is also available for regional activities. Under this new policy, 500 million is earmarked for environmental activities. Noting the relative absence of both market integration and other forms of cooperation in the region, the European Community is trying to encourage the interpenetration of these economies and societies as a way of securing both economic progress and political and social stability in the region.

## 2. United Nations system

46. The United Nations system has long been involved with channelling multilateral development assistance to enhance the regional economic cooperation efforts of developing countries. Development assistance provided through the United Nations system forms part of its operational activities, which are financed multilaterally through the United Nations Development Programme (UNDP) and other funding agencies. UNDP finances regional projects, in addition to country projects, as the way to solve developmental issues at the level of a specific region, given the obvious economies of scale in such an approach. Features of the assistance provided by UNDP, as reported to its Governing Council at its fifteenth session in the report of the Administrator entitled "Regional economic integration" (DP/1993/14, 29 January 1993), is that "the process of regional economic integration has been supported by UNDP as involving a broadly based set of activities. In the past, support was given in areas such as the establishment of common standards in the regions, for example in civil aviation and telecommunications. UNDP also assisted in the creation of research networks in areas such as agriculture. Nevertheless, the most visible motor of regional economic integration has been the development of trade and support for the creation of institutions needed to promote the expansion of intra-regional trade". 18/ The report, nevertheless, concluded that the emphasis for the future may shift towards the promotion of regional economic cooperation rather than regional economic integration.

47. In the African region, UNDP approved and funded 51 regional and subregional integration projects during the fourth programming cycle (1987-1991), at a total cost of US$ 38,808,629. According to the report of the Administrator, "the main beneficiaries were the Organization of African Unity, the Preferential Trade Area, the Southern African Development Coordinating Conference, the Indian Ocean Commission, the Economic Community of Central African States, the Economic Community of the Great Lakes Countries, the Economic Community of West African States, and the West African Economic Community." 19/ In evaluating the assistance provided to Africa, the report concluded that there is a "lack of commitment on the part of the member States" 20/ to those organizations. In addition, the report emphasized the need for rationalizing and harmonizing those organizations, and concluded that "there are currently more than 200 organizations in Africa involved in regional cooperation competing for the scarce financial, manpower and administrative resources. The constraints which they suffer and the inevitable dispersion of effort have impeded the coordination and harmonization of national development efforts and the promotion of interregional trade". 21/

48. In Latin America and the Caribbean region, UNDP-funded sectoral cooperation and joint projects have often been coordinated within the activities of existing subregional entities such as the Caribbean Community (CARICOM), the Andean Pact, the Mercosur area, the River Plate area, and the Treaty of Amazonian Cooperation countries. Aside from those entities, the main partners in UNDP support for the Latin American and Caribbean integration and cooperation process have been the Economic Commission for Latin America and the Caribbean (ECLAC), SELA (Latin American Economic System), ALADI (Latin American Integration Association), JUNAC (Cartagena Agreement of Andean countries) and, more recently, the Amazonian Pact. The ongoing projects totalled to 102 in number, or US$ 54,648,640 in value, as of the end of 1991. The field of economic integration and enhancement of existing subregional institutions is expected to be emphasized more strongly as a result of requests from those regional groupings.

49. The multiplicity of institutions dedicated to integration in the Latin American and Caribbean region has been seen as evidence of growing regional cohesion, but there has also been concern over the problem of institutional fragmentation, and the fact that, as in the African region discussed above, many institutions have had to operate with inadequate resources. The mid-term review of the fourth programming cycle nevertheless recommended that the regional programme should continue to operate with existing institutions as instruments of regional development, cooperation and integration, and that UNDP should encourage efforts by those institutions to define their distinct but complementary functions in the regional integration process. 22/

50. In Asia, UNDP started subregional programmes, as one of the special features of its fourth programming cycle (1987-1991) in support of economic integration and cooperation through the Association of South East Asian Nations (ASEAN) and the Pacific Island countries. Of the total fourth programming cycle resources of US$ 224 million allocated to intercountry activities, US$ 13 million have been committed to ASEAN. UNDP has been designated as one of ASEAN's official dialogue partners. In South Asia, it is reported that the South Asian Association for Regional Cooperation (SAARC) is seeking executing agency status should it commence a dialogue with UNDP regarding the targets and operational modalities of short and long-term planned activities. The South Pacific countries received US$ 31 million for subregional programmes during the same period.

51. In connection with the development assistance provided through UNDP, the report of the Administrator states that "UNDP programmes in economic management and reform envisage considerable use of technical cooperation among developing countries (TCDC) modalities, making good use of existing national and regional institutions and promoting networking among them. Asian governmental and non-governmental institutions, especially universities, research groups and commercial and manufacturing associations, have substantial experience available for sharing through technical cooperation. Several countries have active national TCDC programmes supported by UNDP and national funding sources". 23/

52. In the Arab region, the UNDP funded 86 regional projects to the amount of US$ 65.9 million as of the end of 1991. In the field of economic integration alone, 30 regional projects were approved for the fourth programming cycle,

for a total of US$ 27 million. In terms of UNDP-funded assistance programmes to regional organizations or groupings, the League of Arab Nations has been receiving co-financing for its regional projects and support to its secretariat from the UNDP. In the case of the Arab Maghreb Union (AMU), UNDP has earmarked US$ 600,000 from the fifth programming cycle, matched by an equal amount of cost-sharing by the AMU secretariat.

53. Assistance to the Gulf Cooperation Council was largely of an advisory nature, in the form of short-term consultancies to assist the secretariat in the assessment of studies and reports prepared by private consulting firms, particularly in the area of trade. In addition, development assistance was extended for the establishment of a network of information systems (ARISNET) through the Arab League Documentation and Information Network, and to the recently created Centre for Environment and Development in the Arab Region and Europe (CEDARE), which is expected to be the focus of environmental activities related to sustainable development in the Arab region and the Mediterranean basin. 24/

### 3. International financial institutions

54. Table III indicates the flows of Official Development Finance (ODF) made available through the main international financial institutions. The scope and features of these flows disbursed to regional entities need to be identified, grouped and further studied; such studies, however, are not being carried out due to the lack of resources.

**Table III**

**CONCESSIONAL AND NON-CONCESSIONAL DISBURSEMENTS BY THE MAIN MULTILATERAL ORGANIZATIONS, 1989-1990**

| | Net flows | | Gross flows | |
|---|---|---|---|---|
| | $ million | $ million | % of concessional or non-concessional | % of overall total |
| Major financial institutions | | Concessional | | |
| IDA | 3 589 | 3 815 | 33.6 | 12.7 |
| IDB | 150 | 373 | 3.3 | 1.2 |
| African Development Fund | 548 | 566 | 5.0 | 1.9 |
| Asian Development Fund | 1 010 | 1 052 | 9.3 | 3.5 |
| IFAD | 181 | 230 | 2.0 | 0.8 |
| Other a/ | 562 | 1 005 | 8.8 | 3.3 |
| Sub-total | 6 040 | 7 041 | 62.0 | 23.4 |
| United Nations | | | | |
| UNDP | 1 053 | 1 053 | 9.3 | 3.5 |
| Other United Nations | 3 268 | 3 268 | 28.7 | 10.8 |
| Sub-total | 4 321 | 4 321 | 38.0 | 14.3 |
| TOTAL | 10 361 | 11 362 | 100.0 | 37.7 |
| | | Non-concessional | | |
| IBRD | 4 156 | 12 050 | 64.2 | 40.0 |
| IFC | 886 | 1 410 | 7.5 | 4.7 |
| IDB | 1 159 | 2 161 | 11.5 | 7.2 |
| African Development Bank | 908 | 1 124 | 6.0 | 3.7 |
| Asian Development Bank | 933 | 1 518 | 8.1 | 5.0 |
| Others b/ | 322 | 493 | 2.6 | 1.6 |
| TOTAL | 8 364 | 18 756 | 100.0 | 62.3 |
| OVERALL TOTAL | 18 725 | 30 118 | - | 100.0 |

Source: This table is rearranged from table 8 on page A-17 of the 1992 Report by the Chairman of the Development Advisory Committee.

a/ Council of Europe, Caribbean Development Bank, IMF Trust Fund, SAF and ESAF.

b/ Council of Europe, Caribbean Development Bank.

Note: Excluding EC.

## Chapter II

## CONVENTIONAL AND EMERGING POLICY FRAMEWORKS FOR DEVELOPMENT ASSISTANCE PROGRAMMES WITH A REGIONAL ORIENTATION AND PERSPECTIVES

### A. Conventional policy framework and existing arrangements and framework for dialogue partnership

55. Among the bilateral donors there appear to be several schools of thought on the development assistance programme with regional orientation and perspectives. Canada and France, for instance, are vigorous supporters of the regional cooperation and integration efforts of developing countries and have already incorporated a regional dimension and perspectives into their development assistance policy. Other bilateral donors, although acknowledging the prospective benefits, consider that the needs for which they provide development assistance to groupings have been and will be best met by financial and other contributions channelled through multilateral agencies and international financial institutions. This view is shared by most of the members of the European Community. They believe that development assistance on a regional basis is already being provided by the Commission on their behalf, thus fulfilling their share of the "duty" to assist such activities.

56. According to the experiences of Germany with regional institutions, the success of a development assistance programme with regional perspectives depends essentially on the political will of the governments of the developing countries concerned. Past experience indicates the following, in addition to a number of points discussed in paragraph 58 below:

- Many institutions cannot survive without continuous financial flows from the donors, while member States do not make any substantial financial contributions;

- Association is sought primarily with a view to mobilizing additional donor resources but not to make binding decisions;

- A bleak economic and political situation in the member countries has a negative impact on the effectiveness of institutions;

- Managerial posts are filled according to regional quotas rather than ability;

57. Germany also believes that the objectives of over 200 regional institutions in Africa overlap in part, that they are rarely incorporated into national development strategies, and that the administration of the institutions is clumsy with unsystematic actions and functions. Regional entities are nevertheless expected to fulfil such important functions as:

- promotion of regional integration and security;

- improvement of trade relations;

- provision of public resources and services, that is too costly for individual members (training, research, infrastructure); and

- protection of resources, which is often financially viable only on a supranational basis.

58. Donors in the third group, however, are sceptical about the effectiveness and efficiency of regional initiatives of developing countries, as they have seen no improvement in the problems perceived as impediments to the success of regional cooperation in general. Their concern is based on their evaluation of the past performance of groupings, especially regional integration groupings, and observation of the current financial and technical capacities of many groupings to pursue the objectives for which they were established. In their past association with groupings, many donors have encountered a number of problems owing to the lack of political will on the part of the governments of countries members of those groupings to cooperate, to delegate tasks and to make financial contributions. There have been numerous instances of operational agreements made and commitments expressed at the regional level which, the donors believe, are brought to a halt once they reach the implementation stage at the country level. This in turn leads to donor criticism of groupings. The operational difficulties encountered by the donors indicate that their assistance to groupings is far more time-consuming than in the case of bilateral country programmes, owing to the lengthy process of decision making within groupings, the complex process of planning, coordination and implementation between donors and recipient governments, as well as between donors and groupings, and the need to search for possible co-financing when the contributions from the groupings are not forthcoming as planned.

59. The United Kingdom believes that the regional groupings must be able to demonstrate a credible organizational structure, and a commitment from their members to the cause of regional integration; they must also be able to explain the potential benefits of the groupings themselves. Otherwise, unless the criteria of effectiveness and value for money can be met, regional groupings are likely to lose out to competing calls for development assistance from individual countries.

60. The European Community has a long history of providing financial and technical assistance to the regional cooperation and integration efforts of developing countries. In 1969, the Second Yaoundé Convention (the predecessor to the Lomé Conventions) had already acknowledged regional groupings as potential recipients of support by the Community. Specific policy guidelines for the Community's support to regional cooperation and integration were first set in 1974. Since then, in the light of the Community's own accumulated experience regarding European regional cooperation and integration efforts, extensive financial and technical assistance has been provided at the request of recipients. The Community's commitment to the support of regional cooperation among developing countries remains strong for the 1990s, as regional cooperation is acknowledged to be one of the priority areas in development assistance during the present period.

61. Extensive assistance for regional cooperation is also a result of the Community's own official dialogue partnerships with several groupings of

developing countries. The dialogue partnerships take the form of annual (or bi-annual) ministerial meetings, in which the representatives of the Member States of the Community and the governments of the developing countries discuss various international issues as well as bilateral matters of common interest relating to political, economic, and development cooperation. Apart from financial flows and technical assistance, further support for developing countries' integration efforts is provided in the area of trade. This is done under the EC's generalized scheme of preferences, by granting "regional cumulation" treatment for the rules of origin of products originating in countries belonging to regional groupings.

62. There appear to be several schools of thought on the issues of regional economic cooperation and integration within the World Bank, although the official view is supportive of regional economic cooperation and integration efforts. Bureaux and Offices within the World Bank involved in regional structural adjustment loans to southern and eastern Africa and the restructuring of UDEAC, those active behind the UMOA initiative and those involved at the country level in regional initiatives, such as the livestock action plan for Mali, Burkina Faso and Côte d'Ivoire, are reportedly supportive of the regional approach. 25/

63. Those at the World Bank favouring regional economic cooperation and integration also place "importance on the need to improve transport infrastructure, telecommunications services, etc. in order to achieve growth in the region. Among other forms of regional cooperation, they support a re-thinking of regional infrastructure development and incorporating regional needs into national infrastructure investment plans; regional cooperation in the areas of research and education; and regional cooperation efforts in the area of natural resource management". 26/

64. The way in which the network of multilateral agencies has been developed and refined can be regarded as one of the important achievements of international cooperation, in view particularly of the manner in which policies and operations are determined by their member governments. The initiative of those multilateral agencies requires to be examined and expanded within this framework in order to complement and/or support the development assistance provided by the bilateral donors. In this connection, the remarks made by the Chairman of DAC in his 1992 Report are noteworthy. He stated, inter alia, that the Nordic Study "highlighted a need for a clearer definition of the respective roles of the United Nations system and the World Bank Group, based on each other's comparative advantage", 27/ and that general agreements now exist that "the regional development banks, while remaining primarily project-oriented, should develop policy-based programme lending instruments still further, working in concert with the World Bank and IMF". 28/

65. Several initiatives with regional perspectives in a variety of forms have already been put in place. The European Community, for instance, in addition to its cooperation with the African, the Caribbean and Pacific Group of States (ACP) under the Lomé Conventions, has established a political dialogue and economic cooperation with Central American governments through the San José Process; with the Latin American countries at large through the Rio Dialogue; and with the Gulf Cooperation Council and the Association of South East Asian

Nations (ASEAN), among others. The Caribbean Basin Initiative involving the United States and countries in and around the Caribbean used increased market access and other incentives to foster an upward spiral of foreign investment and export growth in non-traditional sectors. The Enterprise for the Americas Initiative offers the prospect of linking together the economic development of the entire Western Hemisphere on the basis of outward-looking strategies and internal economic liberalization. The Global Coalition for Africa is endeavouring to improve development policy dialogue between the donors and the entire African continent. The Nordic countries and other donors are engaged in an ongoing dialogue with the Southern Africa Development Community (SADC). Within the West African Franc Area, projects are already at a very advanced stage in a number of domains: the signature of an insurance treaty in July 1992 and preparations for the harmonization of business law and social welfare systems. Finally, the creation of an economic union comprising the present currency areas is envisaged. Australia and New Zealand have engaged the Pacific Island countries in a political and economic forum for nearly two decades. 29/

66. All 20 DAC donor governments and the Commission of the European Community are providing some form of financial or technical assistance to regional groupings. The main beneficiaries of such assistance have been ASEAN, CILSS and SADC, all of which have an established dialogue partnership with donors.

**Dialogue Partnership with the DAC Donors**

| | ASEAN | CILSS/Club du Sahel | SADC |
|---|---|---|---|
| Australia | * | | * |
| Austria | | * | |
| Belgium | | | * |
| Canada | * | * | * |
| Denmark | | * | * |
| Finland | | | * |
| France | | * | * |
| Germany | | * | * |
| Ireland | | | |
| Italy | | * | * |
| Japan | * | * | * |
| Netherlands | | * | * |
| New Zealand | * | | * |
| Norway | | | * |
| Sweden | | | * |
| Switzerland | | * | * |
| United Kingdom | | | * |
| United States | * | * | * |
| European Community | * | | * |

67. ASEAN has established official dialogue partnerships with a number of DAC members and with UNDP. This partnership provides opportunities for high-level officials on both sides to discuss matters related, inter alia, to trade arrangements between ASEAN and its partners and to development cooperation.

Each dialogue partner offers its own ASEAN programmes and projects, in addition to bilateral development assistance. ASEAN maintains an independent and bilateral agreement with each of its dialogue partners. The development assistance from the dialogue partners often incorporates the donors' interest in enhancing the business network, trade flows, and investment opportunities in industrialization, minerals and energy, transport and communications and investment, the areas where economic growth is most promising. The partnership with ASEAN offers new and potentially lucrative trade opportunities, while the members of ASEAN envisage a possible increase in foreign direct investment and technology transfer.

68. CILSS (Comité permanent interétat de lutte contre la sécheresse dans le Sahel/Permanent Interstate Committee for Drought Control in the Sahel) was formed by nine countries in West Africa in 1973 with a view to tackling environmental degradation and to improving food security in the region. CILSS receives technical assistance from the Club du Sahel, the members of which are the DAC donor countries. The Club du Sahel was set up in 1976 to promote the objectives of CILSS. Up to this date, the Club du Sahel has been central to the planning and evaluation of various CILSS projects, especially in the area of development research and promotion of dialogue between the CILSS member countries and the DAC members.

69. SADC maintains close links with its dialogue partners through the arrangement for co-financing and evaluation of SADC projects with the dialogue partners at an annual conference. The SADC dialogue partnership may therefore be considered as a kind of consultative conference, although the final agreement is concluded between SADC and individual donors in the form of interrelated bilateral agreements. Out of total project financing for 1990-1991, 88.9 per cent was expected to be financed through external assistance.

## B. Renewed rationale for regional initiatives

70. Since the end of the 1980s, both donors and recipients have witnessed various changes in the environment surrounding the conventional framework of ODA, which have implications for the ODA policy for regional cooperation in developing countries. Firstly, both the donors and recipients have become more aware of the "... emergence of shared problems, such as environment, narcotics, AIDS and migration ...", 30/ which require increased coordination of policies and activities on a regional if not a global scale.

71. Secondly, the growing trend towards the formation of trading blocs, encouraged the middle-income developing countries to seek opportunities for regional economic integration with a gate open to "the North". Mexico's prospects of securing an export market for its manufacturing products and an increase in foreign direct investment have encouraged other Central and Latin American countries to pursue the Enterprise for the Americas Initiative. In Asia, in addition to ASEAN's own efforts to establish AFTA by the year 2008, ASEAN and other newly industrializing economies contemplate a new possibility of increasing the economic linkage with the developed economies of Australia, Canada, Japan and the United States through the Asia-Pacific Economic Cooperation (APEC).

72. Thirdly, the recent drastic political changes have redrawn the map of ODA recipients, expanding it to include many countries in transition. The grants and concessional loans to this area from DAC donors in 1990 amounted to US$ 1.5 billion, which is just below total DAC ODA to China, the third largest share of DAC ODA for 1990-1991. At the same time, many DAC donors have faced economic recession in the past few years, with adverse effects on their ODA budgets and disbursements. Under the circumstances, a number of DAC donors have started to examine the ways in which their ODA can be programmed and implemented on a regional basis for greater cost efficiency in certain fields. The gradually increasing emphasis placed by both multilateral and bilateral donors on projects for regional cooperation in Africa is the expression of their hope of attaining the most efficient result possible with the given resources.

73. The political and economic changes referred to above have induced donors to review their conventional country-oriented development assistance so that a regional dimension and perspectives could be incorporated into their development assistance policy, while developing countries at a more advanced stage of development are encouraged to extend their assistance to the least developed among them through the ECDC/TCDC framework, with which conventional donors may wish to associate themselves. The meeting organized by the OECD/DAC secretariat in September 1992 was intended, in fact, for a discussion of the future orientation of development assistance programmes and policies with a view to facilitating regional initiatives by developing countries in the 1990s. Special attention was given to the strategic importance of regional cooperation, the need for infrastructure and the economic capacity of individual regions to enhance regional economic cooperation efforts.

74. On the other hand, the donor community appreciates the fact that many of the ECDC actors and participants are reassessing and revising their priorities, structures and responses with respect to regional cooperation and integration, by examining the reasons for their failure in the past and policy and programme structure for the future. In this regard, the degree of real commitment on the part of all ECDC actors and participants, particularly government members to regional entities, is considered to be essential for attracting support from the donors, including those which are as yet reluctant to join the vigorous supporters of regional development assistance programmes.

75. The growing gap between the economic growth of the middle-income countries and the low-income countries has given rise to a new rationale for increasing regional cooperation among developing countries. The gap is particularly evident between the countries of East Asia (including China), which have demonstrated one of the highest rates of economic growth and those in sub-Saharan Africa. Most countries in the region have faced complete economic stagnation. 31/

76. Regional cooperation would pave the way for the exchange of experience and strategies between developing countries at a more advanced stage of development and the other developing countries at a less advanced stage. Especially among countries with geographical, political, cultural, and other similarities, such a cooperation framework can provide the basis for mutually beneficial arrangements. Newly industrializing economies may wish to initiate their role as donors through a framework of regional cooperation.

## C. Possible framework of policy reorientation

77. As stated above donors are gradually shifting from general indifference to more positive consideration of, and ultimately active involvement in, a development assistance policy with a regional orientation. In order for this renewed interest to motivate the donor community to translate the shift in the general framework of their development assistance policy towards further incorporation of a regional orientation and perspectives into their development strategies, the lack of credibility of regional arrangements needs to be tackled squarely by all ECDC actors and participants. Similarly, the fact that the donors have received very few requests from prospective recipients for assistance to regional cooperation can be interpreted by the donors as meaning that the recipients have no need of such support. In addition to these issues, which require the attention and commitment of the political leaders of the developing world, the following issues may also have to be addressed in order to improve the scope and effectiveness of the subregional, regional and interregional components of the development assistance programmes of the donor community.

### 1. Potential areas for regional initiatives

78. According to OECD studies, there has been a visible shift, among a number of ECDC actors and participants away from rigid integration schemes to less binding project-oriented cooperation schemes. More flexible approaches are being tested to enable participants to proceed at different speeds and to keep arrangements open for future participants. Such flexible approaches can be found, according to those studies, in the arrangements for the Central American Common Market, the Southern Cone Common Market, the Caribbean Community and the South Asian Association for Regional Cooperation. In addition, although trade remains important, there is growing recognition among the donors that regional initiatives could and should go well beyond trade.

79. The majority of bilateral donors recognize the need for assessing and coping with the possible spill-over effects into other areas of their policies designed for certain objectives. Consequently, they emphasize the need for greater coordination and coherence between their development assistance policy and policies covering areas such as trade, macroeconomic management, finance and agriculture.

80. ECDC actors and participants may wish to benefit, in planning their activities, from the arrangements and facilities existing in the donors for them to organize training programmes with financial assistance from the donors and to provide and/or recruit competent experts as consultants for designing and implementing development assistance projects with financial resources made available by the donors to that end.

### 2. Structural adjustment programmes within the regional context

81. In the past, insufficient attention was paid to the spill-over effects of national policies and measures formulated in connection with structural adjustment programmes in developing countries. There is now an increasing recognition of the need to take the regional dimension into account when structural adjustment programmes and policies are being formulated. The

Africa Regional Bureau of the World Bank, for instance, is reportedly involved with the regional structural adjustment loans in southern and Eastern Africa. Such a supportive policy on the part of the Bank would encourage a greater commitment from bilateral donors to assist regional cooperation among developing countries. At the meetings organized by the European Community in October 1991 and February 1992, in connection with the Special Programme of Assistance (SPA) to the indebted sub-Saharan African countries, the European Community called for further studies on possible approaches to incorporate a regional dimension into structural adjustment programmes, suggesting that it may play a key role in development assistance to regional groupings and intergovernmental organizations in sub-Saharan Africa in the next decade. In its report, "Regional integration and structural adjustment", the Community identified a number of fields where regional integration and structural adjustment might be mutually reinforcing, such as coordination of macroeconomic and sectoral policies among neighbouring countries.

82. This approach is justified on the grounds that the short-term and long-term cost of structural adjustment programmes to the recipient countries may be reduced if they are reviewed regionally, by avoiding the negative spill-over effects on the neighbouring countries as a result of structural adjustment schemes. Structural adjustment programmes may also play a complementary role in regional integration when, for instance, trade liberalization as a part of structural adjustment is designed jointly in a region, so that implementation of structural adjustment programmes would be a direct part of the groundwork for regional integration. Adverse effects and/or the possible complementarity of structural adjustment programmes for regional integration will be discussed further by the donor community in the following SPA meetings.

### 3. Official Development Finance (ODF) other than Official Development Assistance (ODA)

83. The primary objectives of the discussions in the Intergovernmental Group of Experts were to prepare the ground for the Standing Committee to have a policy discussion on improvement of the scope and effectiveness of the regional components of donors, development assistance policy, namely, Official Development Assistance (ODA) as applied to the regional dimension and perspective. In addition to ODA, both bilateral and multilateral donors have a provision for Offiqial Development Finance (ODF) other than ODA, which has played and continues to play a role of similar importance in assisting the developing countries in their development efforts.

84. In order for the discussion on financial and other support by the donor community to the regional economic cooperation efforts of developing countries to be placed within the context of the entire development assistance policy measures and framework available in the donor community, information on the subregional, regional and interregional components of ODF other than ODA available in the donors may have to be compiled and examined in a systematic manner.

4. Organizational and administrative structure of the donor agencies including the related reporting system

85. Several donors have already adjusted their internal organizational structure and planning and budgeting procedures in order to promote regional initiative of developing countries. However, in preparing this report, the secretariat found the related information was not complete. The paucity of the information may have been due to the fact that there was little to report in the case of many donors. Again information may not have been supplied owing to the absence of instructions in the DAC Directives relative to the reporting of regional components of development assistance programmes and projects.

5. Policy dialogue for promoting regional initiatives

86. The success of policy dialogue by the European Community, the Nordic countries, and several other donors with a number of ECDC actors and participants suggests that a dialogue framework between the donors on the one hand, and recipient groupings and other relevant ECDC actors and participants on the other concerning the issues of regional economic cooperation and integration could potentially provide the means of harmonizing and coordinating the efforts of the donor community. In addition, such a framework could provide the recipients with guidance regarding the manner in which their requests for internal financial and other assistance should be presented together with the expression of the political and financial involvement and commitments of the Governments concerned. The framework might first be devised as a number of focal points for information channelling. Donors may wish to provide, through such a framework, information regarding the policy measures and framework pertaining to the development assistance available to the ECDC actors and participants, particularly information on the provision of financial resources on concessional terms, as well as on the criteria governing acceptance by the donor community of the requests for such assistance. ECDC actors, on the other hand, may wish to present their developmental objectives and related external financial requirements, together with their own political, financial and other commitments, in a format that is understandable to the donors. The lack of information on this matter seems to have hindered the donors in properly assessing the activities, objectives and commitment of the ECDC actors, including governments, thus leading donors to conclude that the ECDC actors lack the political will to succeed with regional arrangements and initiatives.

Notes

1/ See TD/B/39(2)/16, TD/B/CN.3/5, annex II, para. 4.

2/ See TD/B/39(2)/16, TD/B/CN.3/5, para. 42 (a).

3/ Miho Shirotori, "Review of international support for regional integration and cooperation among developing countries" (UNCTAD/ECDC/232), 10 February 1993.

4/ The members of the Development Assistance Committee of OECD are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom and United States.

5/ The term "regional" henceforth refers also to "subregional" and "interregional".

6/ See "1992 Report by the Chairman of DAC", Paris, 1992, p. 22.

7/ Ibid., p. 23.

8/ The figure is an approximate estimate of actual DAC assistance to regional economic cooperation efforts of developing countries, owing to the utter absence of factual statistics on, or even the definition of, development assistance to regional cooperation efforts. Most donor countries have customarily included their regional assistance in the country projects budget.

9/ The Southern African Development Coordination Conference (SADCC) became the Southern African Development Community (SADC) in August 1992. For ease of reference, SADC is used henceforward in this report unless reference to SADCC is required from the organizational point of view.

10/ Most of the information contained in this sub-chapter was supplied, through the good offices of the Permanent Mission of Germany, by the Bundesministerium für Wirtschaftliche Zusammenarbeit und Entwicklung in its Informationsvermerk Nr 13/19 entitled "Informationvermerk für den Ausschuss für Wirtschaftliche Zusammenarbeit".

11/ Japan's ODA 1992, Ministry of Foreign Affairs, Tokyo, pp. 120-121.

12/ Ibid., p. 96.

13/ Ibid., p. 102.

14/ Based on the budget data taken from the United States Agency for International Development, "Congressional presentation".

15/ This figure refers to the total "life of projects" cost rather than to the volume of commitments during FY 1992, which was US$ 50 million, as budgeted.

16/ See Casseu, R. & Associates "Does aid work?, Report to an Intergovernmental Task Force", United Kingdom, 1986, pp. 281-282.

17/ "Financial cooperation under the Lomé Convention. Review of Aid at the end of 1992".

18/ Report by the UNDP Administrator, "Regional economic integration" (DP/1993/14), 29 January 1993, para. 48.

19/ Ibid., para. 3.

20/ Ibid., para. 4.

21/ Ibid., para. 11.

22/ Ibid., paras. 17 and 20.

23/ Ibid., para. 31.

24/ Ibid., paras. 37, 42 and 43.

25/ "Donors strategic design and planning" (SAH(93)/40), CINERGIE, April 1993, p. 42.

26/ Ibid., p. 43.

27/ Development Co-operation, 1992 Report by the Chairman of DAC, Paris 1992, p. 93.

28/ Ibid.

29/ Ibid., pp. 42-43.

30/ Ibid., p. 5.

31/ World Development Report 1991, World Bank (1991), p. 3.

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# RECOMMENDATIONS ON THE IMPROVEMENT OF INTERNATIONAL SUPPORT FOR ECDC PROGRAMMES, PROJECTS AND NEW INITIATIVES

## Preliminary suggestions regarding the improvement of the scope and effectiveness of subregional, regional and interregional components of development assistance programmes of the donor community

Report by the UNCTAD secretariat

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## INTRODUCTION

1. At its first meeting held on 11 to 15 January 1993, the Standing Committee on Economic Cooperation among Developing Countries (ECDC) decided to ... "make the necessary arrangements for a pragmatic policy dialogue among the donor community, subregional, regional and interregional groupings as well as participants in ECDC programmes and projects with a view, in particular, to mobilizing support for designing and implementing regional initiatives, interregional activities and networking of integration and cooperation schemes". The present Intergovernmental Group of Experts (IGGE) has been organized in pursuance of that decision to hold consultations and report to the next session of the Standing Committee on how assistance to ECDC programmes could be improved.

2. Among developing countries, there is a marked upsurge of interest in ECDC as reflected in the efforts being made to strengthen, streamline and reorient existing subregional and regional economic cooperation and integration schemes and to establish new schemes where none existed before. At the same time these cooperation and integration efforts of developing countries are increasingly attracting the attention and active support of the donor community, reflecting recent trends among developed countries themselves to adopt regional economic cooperation and integration as strategies for trade expansion and economic growth.

3. In section I of this paper examples and political manifestations from donor countries, multilateral institutions and recipients are reviewed. The new thinking on ECDC support is set against some important trends in the international scene. Three of these trends are highlighted, namely, policy reforms in developing countries, the increased emphasis on project-specific ECDC, and the rise of trading blocs involving both developed and developing countries. In section II, some institutional problems concerning the extension of support to ECDC are reviewed in the context of action that might be taken. Section III concludes the paper by offering suggestion on modalities for dialogue between donors and ECDC entities together with specific suggestions on follow-up action.

## I. NEW THINKING ON SUPPORT TO ECDC AND UNDERLYING TRENDS

### A. Examples and policy manifestations

4. The support which developed countries give to ECDC takes a variety of forms ranging from policy dialogues at the level of OECD/DAC to practical support at both the multilateral and bilateral levels, to specific ECDC programmes and projects or specific cooperation and integration groupings of developing countries. A notable example of the former is the September 1992 OECD/DAC policy meeting, which provided the occasion for the donor community to review its development assistance policy and to examine how best it could support regional economic cooperation and integration among developing countries. The result of the meeting confirmed the member countries' new approach to the economic integration initiatives of the developing countries and their readiness to incorporate aspects of regional cooperation and integration in their development assistance programmes. The meeting decided

also to explore the possibilities of encouraging the rationalization and strengthening of regional institutions and to respond favourably to the efforts of developing countries to work together and to help identify areas particularly suited to regional approaches.

5. At the bilateral level, an increasing number of developed countries and their institutions are taking steps of both an organizational and procedural kind in order to be better able to respond to the ECDC-related aspects of their development assistance programmes and, specifically, to encourage and support regional cooperation initiatives. Some have established a special "window" or a special regional fund to provide development finance for multi-country projects and programmes. Others have taken the policy decision to concentrate their development assistance in a limited number of regions in order to maximize its impact. 1/

6. The internal structure as well as the working procedures of the main donor countries and institutions reflect this interest in regional cooperation and integration. A notable example is the European Union which has a long history of providing financial and technical cooperation support to regional cooperation and integration dating back to the Second Yaoundé Convention of 1969. Its own success in European integration and the experiences it has gained in that process would probably explain the important role it has been prepared to play, among the donor community, in supporting regional economic cooperation and integration. For example, at meetings which it organized in October 1991 and February 1992, in connection with the Special Programme of Assistance (SPA) to the indebted sub-Saharan African countries, the Union (at the time the EEC) called for further studies on possible approaches to incorporate a regional dimension into structural adjustment programmes, suggesting that it may play a key role in development assistance to regional groupings and intergovernmental organizations in sub-Saharan Africa in the next decade. In its report, "Regional integration and structural adjustment", the Union identified a number of fields where regional integration and structural adjustment could reinforce each other, such as coordination of macroeconomic and sectoral policies among neighbouring countries. 2/

7. Among the multilateral organizations, the World Bank, which had previously paid limited attention to regional integration, has in the recent past been adopting an unambiguous supportive role as manifested in several of its activities in Africa in particular; and UNDP has made support to regional economic cooperation a central feature of its programming cycles. Similar approaches are evident in the programmes of all the major bilateral donors.

8. Yet another manifestation of the new attitude in developed countries to the ECDC efforts of developing countries can be seen in the growing popularity of Development Partner Dialogue relationships, working through consultative conferences, round tables and other mechanisms. ASEAN, SADC and the South Pacific Forum hold annual consultative meetings with interested development partners. ECOWAS held its first "donor conference" in 1992 and PTA is organizing one in 1994.

9. On the part of recipients, many economic cooperation and integration groupings have taken new initiatives either to improve the existing machinery for consultation with donors or to establish new modalities for conducting

their relationships with them. 3/ Thus, following a mission to Europe and North America to generate interest in its cooperation programmes, ECOWAS inaugurated in 1992 the organization of donor conferences to supplement traditional bilateral cooperation agreements. In the Organization of the Kagera Basin (OKB) the mobilization of external support was achieved through round tables and bilateral consultations in 1979 and 1982 and a third round table is planned for 1994. ASEAN, SADC and the South Pacific Forum continue to organize annual consultative meetings with their interested development partners. These well-attended meetings have provided increased resources by interested donors to the organizations in support of some aspects of their ECDC programmes and projects and have helped to improve and mobilize international support for the organizations concerned.

10. Moreover, a growing number of the ECDC participants are establishing operational units or departments within their secretariats to handle relationships with cooperating developed countries and donor agencies. This is the case for example of ALADI's External Technical Cooperation Department, PTA's Technical Cooperation and Aid Coordination Unit, and the Andean Group's Technical Cooperation Unit. The South Pacific Forum has decentralized this process further by creating an operational unit, the ACP/EC Unit, which is solely responsible for overseeing the development and implementation of the Lomé IV Pacific regional programme.

## B. Other global trends enhancing regional cooperation

### 1. Policy reforms in various countries

11. Towards the end of the 1980s and the beginning of the 1990s, there were major changes of both a political and an economic nature on the international scene, in the wake of which major reforms were undertaken by a number of developing countries. These reforms have, inter alia, two outstanding characteristics: they are liberal and market-oriented and open to the global economy. The switch from a strong emphasis on inward-looking import substitution policies to more openness gave new impetus to ECDC, because cooperation with regional/subregional partners came to be seen as a step towards fuller participation in the global economy as it facilitates the acquisition of higher skills and the attainment of the production scale necessary to compete internationally. Similarly, the liberal market-based orientation opened up the possibility of enterprise cooperation and these two trends have become mutually reinforcing. Most developing countries, members of integration groupings, for example, have established very tight timetables for market integration which generally envisage the full attainment of customs union or common market status by or around the year 2000. Generally speaking, these market integration efforts, in contrast to the past, are being developed as much as possible within the context of an outward-oriented approach and consistent with long-term integration objectives. Some of the integration groupings such as UDEAC and the Andean Group are considering the creation of common external tariffs that are not excessively protective but just sufficient to ensure that regional producers continue to have some competitive advantage regarding imports.

12. The wave of economic reforms in developing countries also touches upon the financial sector, such as the liberalization of exchange restrictions and movements towards greater currency convertibility. Such liberalization improves the scope for cross-border investment, the development of capital markets and financial institutions. It also enhances the prospects for establishment or improvement of regional banking, regional venture and equity funds, regional stock markets and investment funds through a broader spread of risks and investment portfolios arising from the wider financially liberalized regional area. Thus, some regional/subregional groupings such as PTA and CARICOM are actively considering establishing such mechanisms.

2. Project-specific ECDC

13. Trade liberalization is no longer the dominant feature of economic cooperation and integration, whose scope now also embraces other fields such as monetary and financial cooperation, cross-border physical infrastructure networks, production capacities, culture, and environment, among others. Moreover, cooperation in all of these fields is increasingly based on a careful selection of specific projects where prospects for joint action appear promising. At the same time greater flexibility is being introduced into cooperative arrangements that make it possible for two or more countries to proceed with a venture even when all the members of a grouping are unable to participate at the same time and speed. The project approach to cooperation is also the operating modality of such project-specific groupings as the Lake Chad Basin Commission and OKB, which were set up to coordinate cooperation among their member States in specific sub-sectors and to promote the implementation of regional projects that benefit two or more of the member States of the particular grouping.

3. Emergence of new trading blocs

14. Another global phenomenon with implications for ECDC is the emergence of trading blocs centred around the main global economic centres such as the United States and the European Union with other growth poles under consideration. One transformation ensuing from this trend is the movement towards more flexible approaches to economic integration by freeing it from geographical constraints. "Mixed groupings" have been formed, involving integration arrangements between developed and developing countries. The outstanding examples are the North American Free Trade Association (NAFTA) between Canada, United States and Mexico; and Asia-Pacific Economic Cooperation Forum (APEC) involving Australia, Brunei Darussalam, Canada, China, Taiwan Province of China, Hong Kong, Indonesia, Japan, Malaysia, Mexico, New Zealand, Papua New Guinea, Philippines, Republic of Korea, Singapore, Thailand and United States. Other examples include ongoing discussion for a possible free trade agreement between the European Union and the Arab Maghreb Union (UMA), and between the European Union and the Cooperation Council for the Arab States of the Gulf (GCC). Similar growth poles are also being formed among developing countries themselves. For instance, the formation of a number of "growth triangles" is under discussion between several countries members of ASEAN to foster cross-border investment, development of industries and promotion of trade.

## II. ISSUES AND PROBLEMS OF ECDC SUPPORT

### A. Distinguishing characteristics of ECDC support: a rationale

15. The greatest part of aid flows have been directed towards specific country recipients. In fact, only about 1 per cent of the aid flows of recent years can be considered as regional or as having significant regional components. 4/ While section I has explained the new thinking regarding regional ECDC support and the trends encouraging such new thinking, the question arises as to whether there are inherent characteristics to ECDC support which not only provide its rationale but differentiate it from bilateral support.

16. At the head of the list, one can suggest support for regional and subregional "public goods". For example, environmental problems; problems of migration; the incidence of labour displacements, problems of disease control and control of natural disasters. These furnish a well-found justification and rationale for extending support on a regional or subregional basis since both the incidence of these problems and the requirements for dealing with them cannot be confined to one country, nor can one country limit its own exposure to them.

17. Another justification is to be found in undertakings that transcend the borders of one country. Cases in point are transportation and communication networks, joint venture projects, projects of regional or subregional production collaboration among members of an integration grouping or a cooperative arrangement such as food security projects in Africa.

18. It is not uncommon for regional/subregional initiatives to founder on account of the lack of indigenous financial resources and expertise. Information received from developing countries and their groupings reveal several examples of projects for which external support was sought and which might not have been carried out without such support. On the whole, regional activities are typically more complex to operate and require longer-term financial commitments than country projects. Assistance by developed donors and multilateral institutions is likely to involve specialized knowledge often scarce in the recipient countries. Another consideration revolves around the empirical observation that in many donor countries there are training facilities for encouraging and supporting regional/subregional cooperation. While this is not exclusive to ECDC support, it does none the less provide a justification for an ECDC-oriented aid component in development assistance programmes. In this context, the donor countries in cognizance of the dearth of institutional capacity in cooperation groupings have shown a marked interest in giving assistance for institutional capacity-building to groupings.

19. Regional/subregional cooperation finds inherent justification in the scale viability it brings about. Many production and distribution facilities would not be viable in small countries and for small markets. Moreover, economies of scale and in particular significant gains from large-scale production, especially in manufactures, have accrued historically only after attaining a certain size. Comparative growth experience, and in particular

the work of S. Kuznets on United States growth and production, not only documents this aspect but imputes a considerable part of growth to increased returns to scale. Hence, it would be natural that many small developing countries would seek gains associated with a regional scale in many suitable undertakings, and in consequence would seek external support from donors for such undertakings. Conversely, as development-interested partners, donors would be normally inclined towards considering such undertakings. It is propitious in this respect that the new emphasis placed on project-oriented ECDC, i.e. cooperation on specific projects, would lend feasibility and operationality to external support for large-scale regional undertakings.

20. Some concrete sectoral examples confirming the above criteria are given below:

(a) Broad sectoral cooperation and specific schemes in the productive sectors of industry and agriculture, in trade promotion and in transport and communications;

(b) Enterprise development and the promotion of private sector and public-private sector linkages as well as various types of networking arrangements;

(c) Cooperation in the provision of certain public goods and services that can be provided more efficiently on a joint basis (education, research, infrastructure and environment);

(d) Trade cooperation projects of various types ranging from liberal trade zones to custom unions to common markets; 5/

(e) Other types of cooperation that do not necessarily require formal regional institutions or explicit broad policy coordination as is the case, for example, in common negotiations in pursuit of a specific common interest.

## B. Some institutional considerations

21. There are a number of perceived problems attaching to regional support programmes that do not exist in respect of bilateral programmes. These perceived problems may sometimes have the effect of making bilateral programmes more attractive than regional programmes not only to the donors but often to the recipients as well. From the viewpoint of donors, one of these problems relates to the seeming lack of credibility of certain regional arrangements reflected in the reluctance of participating governments to honour regional commitments voluntarily entered into; this is in respect not only of regional decisions taken but also of contributions to regional institutions. This lack of credibility raises questions for donors concerning, on the one hand, the integrity and long-term sustainability of regional decisions and, on the other, the ability of regional institutions ever to be in a position to generate the level of local resources that would be needed for them to assume full technical and financial responsibility for a regional project or programme once external support for it has come to an end.

22. The developing countries may argue that there continues to be strong political support for ECDC in general and for regional economic cooperation and integration in particular. They can cite the evidence to be seen in the several initiatives that are being taken by them for closer cooperation in a variety of fields. It can be held that whatever failure there has been in translating this interest into action is not so much due to a lack of political will as to the difficult economic situation in which the majority of developing countries have had to exist for much of the past decade and a half when the emphasis has been on crisis management rather than on long-term economic cooperation.

23. Among the problems confronting economic cooperation and integration schemes of developing countries, the problem relating to implementation of decisions is one of those that needs to be given priority attention. The treaties and protocols governing the operations of these schemes often contain well defined agendas for cooperation but provisions for the enforcement of and compliance with agreed undertakings are either non-existent or very weak. In any event, even where enforcement provisions exist, they are hardly ever invoked despite persistent failure to implement decisions. A similar situation exists with respect to dispute settlement procedures. In some schemes formal provisions are made in this regard but they are not always activated.

24. Another problem revolves around the overlapping of the multitude of cooperative groupings, especially in Africa. This creates problems for donors and leads to competition among potential recipients for the limited aid budgets. Some restructuring and streamlining of cooperative groupings is certainly called for, and would help both donors and recipients in clarifying the institutional topography of ECDC.

### C. Mobilizing, monitoring and evaluating ECDC-related support

25. The most common approach used by ECDC participants to mobilize external support to ECDC projects and programmes is the conclusion of cooperation agreements with individual development partners or groups of development partners through the modality of periodic donor or consultative conferences and meetings. Both types of arrangement provide a channel through which ECDC participants can present their ECDC projects and programmes to donors and solicit their support. Furthermore, they also provide an opportunity for donors to play a part in the design, implementation and monitoring of activities in which they are associated.

26. In spite of the existence of these mechanisms and recent changes in procedures among some of the major development partners, problems continue to persist. Some of these problems are the result of differences in perceptions and priorities as seen from the standpoint of the donors and the recipients. Other problems include those relating to the ad hoc nature of regional support and to protracted negotiations and delays in obtaining approval and disbursement of assistance.

27. Moreover, among the ECDC recipients, there is a general lack of established mechanisms and institutional structures with the mandate to procure external assistance and enter into commitments on behalf of the group.

This legal and coordination issue becomes a particularly important problem in situations where there is a multiplicity of overlapping groupings as it raises the risk of duplication of effort, inter-ECDC participant suspicion and rivalry in seeking external support. 6/

### D. Interfacing between ECDC support and national policies

28. To the maximum extent possible, external support to the ECDC process should take national policies and action into account in order to avoid working at cross purposes. Three aspects of this question deserve particular attention: specific sectoral problems; structural adjustment programmes, and the problem of incentives, especially in aid bearing on agriculture.

29. External support to regional and subregional activities should be interfaced with national trade policies, with exchange rate policies, with financial and credit regulations, and with the legal system governing banking, FDI and the operation of foreign firms in members of the groupings receiving this support. For example, support for a free trade zone or a joint production facility would require exemptions from trade barriers and equal treatment with national producers regarding the national content of the product. Similarly, FDI flowing to a regional cooperative grouping or an integration grouping should not be hampered by unequal treatment by regulations governing foreign ownership, or regulations regarding transfer of profits and free disposition of foreign exchange proceeds. In the same vein, the tax and regulatory structure of each country ought to be neutral among products of joint collaboration supported externally and competitive national products. In some instances, external support may have provisions tying development assistance and credit to procurement in the donor countries. Such provisions might not only run counter to intraregional import agreements but also work at cross purposes with bilateral aid.

30. Regarding structural adjustment programmes financed by multilateral organizations or funded by external donors, it is obvious that the regional perspective should bear upon their design, their targets as well as their sequencing. Examples of a growing awareness of this aspect can be cited from the IMF, the World Bank and the European Union. In the World Bank, the Africa Regional Bureau is reportedly involved in the structural adjustment loans to countries in southern and Eastern Africa. At meetings organized by the European Union in October 1991 and February 1992, in connection with the Special Programme of Assistance to the indebted sub-Saharan countries, the Union called for further studies on possible approaches to incorporate the regional dimension into structural adjustment. In its report entitled "Regional integration and structural adjustment", the Union identified a number of areas where regional integration and structural adjustment can reinforce each other.

31. A further manifestation of this policy is an initiative launched in 1991 by the African Development Bank, the European Union, IMF and the World Bank, to facilitate cross-border trade and investment among Eastern and Southern African countries members of the Preferential Trade Area for Eastern and Southern Africa (PTA), the Southern African Development Community (SADC) and the Indian Ocean Community (IOC) through regional cooperation in trade liberalization, improvement of payments and exchange systems, investment

promotion and institutional development. By targeting the interlinked areas of cross-border trade, investments and payments in a comprehensive approach, the initiative aims to increase such trade and investment and in the process contribute to enhancing and accelerating national structural adjustment measures and regional integration.

32. When structural adjustment programmes are designed for specific countries, the targets imposed on monetary expansion, taxes, tariffs, price regulations, and credit offered by the Central Banks, etc. ought to be harmonized with regional commitments. Furthermore, the sequencing of reforms, which typically starts with changes in macroeconomic policies and then continues with micro measures, ought to be coordinated with what is undertaken regionally or at the level of integration groupings. Unavoidably, there will be spill-over effects on other countries, for example, in imports, in tax collection at the border, in the incentives afforded by the tax structure and its effective rates and so on. In all such instances, specific measures to deal with spill-overs and specific measures of coordination ought to be grafted onto the structural programmes.

33. The impact of external support for ECDC may bear upon the structure of incentives and production decisions in members. In particular, this has been observed in the agricultural sector where aid in the form of subsidized agricultural commodities and food aid have had adverse effects on local producers and have on occasion undermined regional plans for achieving regional food security or for developing the agricultural capabilities of a member country to provide for the region. By the same token, assistance to regional efforts to set up production facilities must be subjected to the test of whether such production, in relation to other producers, is higher or lower cost. Failing that, external assistance might be expanded on trade substitution rather than trade creation.

## III. A POLICY DIALOGUE ON REGIONAL SUPPORT

34. The experience so far of policy dialogue between the major development partners and ECDC participants suggests that a dialogue framework between donors and recipients can yield very useful results. The essential élements of such a dialogue may involve the question of aid objectives and modalities; coordination and streamlining of different sources and types of aid, organization of modalities for project-specific dialogue, for periodic meetings to discuss aid plans and needs and for establishing a reporting system and data base on support to ECDC. 7/

### A. Donor-Recipient dialogue and coordination

35. At present, aid programmes and policies are built around the national needs of a recipient country. While bilateral aid will continue to dominate ODA flows and other forms of financial assistance, the regional dimension and, in general, external support for ECDC would seem to call for periodic meetings within a loose institutional framework between donors and recipients, such as regional actors and integration secretariats, in order to map out the contours of external support to ECDC, prioritize its objectives, and devise appropriate modalities for channelling, monitoring and evaluating this aid component and for sequencing its disbursement.

36. The EC has had such a dialogue with the Central American governments through the San José process; the donor community has an arrangement of this kind with SADC among other groupings and there is also the example of the global policy dialogue framework envisaged for Africa. The donor community also supports the research carried out by 13 regional agricultural research institutions through the Consultative Group on International Agricultural Research. These examples and models of successful collaboration between groupings of developing countries and their development partners provide useful pointers for structuring donor/recipient relationships in the context of support to ECDC.

37. It is obvious that such a dialogue would have to address the concern of donors regarding their total aid outlays and that of the recipients regarding their bilateral share in external aid. Only through such a dialogue would it be possible to arrive at mutually acceptable plans.

### B. Streamlining and coordinating aid types and sources

38. Aside from a dialogue on aid to ECDC, its priorities, contours and sequencing, there is an operational need for coordination and streamlining among the various sources and types of aid. While the donors have their own institutional arrangements for coordination, it would be extremely helpful to factor the objectives and views of potential recipients into aid plans. External support to ECDC may take a variety of forms; grants, advice and technical expertise, technical assistance projects, training and manpower assistance. It also comes from a variety of sources in donor countries and their institutions, and in multilateral funding institutions. One of the desirable outcomes of this aspect of the partnership dialogues is to review the entire spectrum of these efforts and examine the extent of their consistency and coverage. In this context it might be useful to determine whether there is merit in some functional specialization among various agencies in a way that would better fit their comparative expertise, past experience and established relations with recipients.

39. In this context, external support to ECDC entities might also include loans. In particular, this question might arise in relation to multilateral funding institutions. There are at present legal problems to such lending. The IGGE might wish to look into the conditions under which such lending might become both permissable and viable.

### C. How can the international community enhance external support to ECDC?

40. While the need for such support and perhaps the willingness of donors to consider specific action in this respect are beyond doubt, the IGGE might wish to consider the following steps:

(i) Provision for group-specific donor-recipient meetings at the request of ECDC participants and entities to decide on areas and specific projects suitable for external support;

(ii) Establishment of a common reporting system on standardized norms to monitor and exchange information on ECDC external support, and to create by UNCTAD, in cooperation with other institutions, a data base to facilitate the reporting and dissemination of information on ECDC external support;

(iii) The IGGE is expected to play a central and catalytic role in defining the future donor-recipient relations on ECDC and its support. It is hoped that past experience and the new thinking on this matter will lead to the establishment of the most suitable framework, guidelines and modalities for fruitful cooperation in the future. To that end, the IGGE might consider making appropriate recommendations to the Standing Committee on ECDC in order to assist it, in accordance with its terms of reference, in identifying "the areas, including new ones, in which international organizations, and member States, on a voluntary basis, through measures of support can facilitate specific economic cooperation programmes and projects and thereby complement the efforts of developing countries to strengthen South-South trade and economic relations." 8/

Notes

1/ For some examples of this trend see UNCTAD TD/B/CN.3/GE.1/3.

2/ Ibid.

3/ For details, see UNCTAD, "Review and analysis of the development objectives and external assistance requirements of ECDC participants" (TD/B/CN./GE.1/2), April 1994.

4/ See UNCTAD TD/B/CN.3/GE.1/3.

5/ It is worth noting in this context that the emergence of trading blocs involving both developed donor countries and developing countries opens up possibilities for ECDC support within such mixed groupings.

6/ Based on information supplied by groupings themselves. See TD/B/CN.3/GE.1/2.

7/ See TD/B/CN.3/GE.1/2, chap. II.

8/ See Report of the Trade and Development Board on its thirty-eighth session. Second part, Official Records, Supplement No. 1A (Part II) (TD/B/1323 (Vol. II), part I, annex, B). Terms of reference of the Standing Committees. Standing Committee on Economic Cooperation Among Developing Countries.

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